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GENERAL

1. British views concerning a possible CFM meeting--US Em-
bassy London, in an analysis of the probable British position
at the proposed Council of Foreign Ministers meeting, ex-
presses the view that the British will tend to concentrate
on ways and means of checkmating Soviet propaganda moves
rather than on positive proposals for the settlement of the
German problem. The Embassy believes that the UK will
remain flexible during preparatory tripartite talks, with a
view to ensuring a common front on the part of the three
Western Powers. According to the Embassy, British thinking
about Germany has undergone a material change; instead of
believing that British interests would best be served by the
creation of a relatively weak, demilitarized Germany, the UK
now desires the formation of a strong anti-Communist German
state that would serve to bulwark Western defense. Although
recognizing that it would be impossible to reject an apparently
sincere Soviet offer to meet Western conditions for the reuni-
fication of Germany, the British believe the West should not
agree to suspend German rearmament while reunification was
being carried out and should oppose the demilitarization of
Germany. The Embassy notes that the Foreign Office is
keenly aware of the "divisive aspirations" of the USSR and is
fully appreciative of the opportunities that a four-power con-
ference would offer for the use of Soviet divisive tactics. The
Foreign Office is particularly concerned about the French
tendency to "rise to Soviet bait."

2. Comment on Soviet reply to Western Powers--US Embassy
Paris, in commenting on the Soviet reply to the counter-
proposal of the three Western Powers for a four-power
conference, takes the view that the essential point is the

State Dept. review completed

- 1 -

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Soviet refusal to consider widening the agenda, as the West proposed, in order to take in other issues besides Germany. The Embassy observes that although the Soviet note obviously seeks to exploit any differences that exist between the US, French, and British positions, particularly in regard to general policy on German rearmament, such differences ought to be considered secondary to the main consideration: namely, the Soviet refusal to initiate exploratory conversations concerning the establishment of a mutually acceptable basis for a conference.

3. Reaction of UN delegations to Chinese fighting--The US delegation to the UN reports that renewed evidences of Chinese Communist hostilities have stiffened the determination and will to resist of the Latin American delegations and, to a lesser degree, the Western European delegations. The US delegation adds that the British and French are still concerned at the prospect of large-scale war in Asia and are thus still anxious to attempt negotiations, which they distinguish sharply from appeasement. The Asian and Arab states share this concern, fearing that a UN finding of Chinese Communist aggression may precipitate not only a large-scale Asian war but perhaps general war.

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FAR EAST

4. INDOCHINA: Summary analysis of situation--In a year-end analysis of the situation in Indochina, US Legation Saigon expresses the view that the battle for Indochina and possibly for all of Southeast Asia is being fought in Tonkin at this moment. The Legation believes that the entire north, except

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the shrinking Hanoi-Haiphong beachhead, must be written off for the time being and considers it possible that Hanoi itself will be lost or abandoned without mass intervention by the Chinese Communists. The Legation adds, however, that the "assumption is now unavoidable that sooner or later, and probably soon," the Chinese Communists will invade Indochina with organized units. The Legation notes that although there has been a marked improvement in relations between the French and the Vietnamese, the Bao Dai Government has thus far failed to display any real dynamism and has not yet won the confidence of the public. The Legation also notes that Indochina is further weakened by the lack of unity among Indochina's neighbors, as well as by divergencies in the Far Eastern policies of the major powers. Regarding the economic situation, the Legation concludes that it is "no worse" than it has been for the past 18 months.

- 3 -

TOP SECRET
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